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30 October 1974

MEMORANDUM FOR: [REDACTED]

RIO/Western Europe

SUBJECT : Greek Economy

Attached is a draft of the section you requested on the economic situation and outlook in Greece. If there are any further questions feel free to contact [REDACTED]

[REDACTED]

Office of Economic Research

Attachment: As Stated

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## GREECE: ECONOMIC SITUATION AND OUTLOOK

Under the junta, the Greek economy experienced six years of extremely rapid real growth -- averaging 8.6% annually -- but it overheated severely in 1973. Consumer prices shot up by 30% while the chronic trade deficit almost doubled to \$2.4 billion.

Faced with these mounting problems, the government imposed an austerity program late in 1973. The economy responded quickly, with industrial production falling 11% from January to June. The rate of inflation slackened at the same time, and in the second quarter some improvement was observed in the balance of payments -- despite the impact of higher oil costs.

Just before its ouster, the junta decided to begin easing restraints. This policy was implemented by the new civilian government. The Cyprus crisis complicated but did not fundamentally alter the economic situation. It diverted men into the armed forces, delaying a production comeback, and disrupted the important tourist industry.

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some further policy easing -- particularly of credit restraints -- is likely by year's end. Industrial production should begin a recovery, if it has not already done so, but probably will not equal its previous peak during the next six months. Real GNP growth this year will be close to zero but should recover substantially in 1975. Inflation and the external payments situation meanwhile have shown further improvement: a 10% inflation rate -- one-third that of 1973 -- is possible for the year, while the current account deficit may be held slightly below last year's \$1.2 billion. Foreign loans needed to cover this deficit have already been obtained.

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